

Message Text

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ACTION EB-07

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UNCLAS WELLINGTON 4453

GATT

E.O. 11652: N/A

TAGS: EALR EFIN ETRD NZ

SUBJ: NZ LIMITS DEVALUATION OF DOLLAR TO 7 PER CENT

1. THE WAKE OF AUSTRALIA'S 17.5 PER CENT DEVALUATION
NZ, AFTER A FULL DAY OF CABINET CONSIDERATION OF DIFFERENT
OPTIONS, DEVALUED THE NZ DOLLAR ON NOVEMBER 29 BY 7 PER CENT
RELATIVE TO THE US DOLLAR AND ALL OTHER MAJOR CURRENCIES
EXCEPT THE AUSTRALIAN DOLLAR. THE NZ DOLLAR ROSE ABOUT 12.7
PER CENT RELATIVE TO AUSTRALIAN DOLLAR.

2. THE PRIME MINISTER, MR. MULDOON, IN ANNOUNCING THE
DEVALUATION, SAID THIS WAS DONE RELUCTANTLY. THERE WAS NO
DIRECT PRESSURE ON THE VALUE OF THE NZ DOLLAR. HE SAID THE
GOVERNMENT SERIOUSLY CONSIDERED MAKING NO ADJUSTMENT IN
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RESPONSE TO THE AUSTRALIAN MOVE. BUT THE LOSS OF

COMPETITIVENESS OF THE NZ MANUFACTURERS WHO EXPORT TO AUSTRALIA AND OTHER MARKETS LED THE GOVERNMENT TO REJECT THIS STANCE. THE MAJOR PART OF NZ'S MANUFACTURED EXPORTS GO TO AUSTRALIA.

3. THE GOVERNMENT WILL ALSO IMMEDIATELY REVIEW EXISTING EXPORT INCENTIVES TO INCREASE SUPPORT TO NZ EXPORTERS TO ALLEVIATE SOME OF THE DISADVANTAGES THEY WILL ENCOUNTER BECAUSE OF AUSTRALIA'S DEVALUATION.

4. THE MODERATE DEVALUATION SHOULD ONLY RESULT IN AN INCREASE IN CPI OF ONE-HALF TO THREE-FOURTHS PER CENT ACCORDING TO PRIME MINISTER.

5. COMMENT: NZ PRIMARY EXPORTERS WILL GENERALLY GET AN APPARENT BENEFIT FROM DEVALUATION. THEIR NZ DOLLAR PROCEEDS FROM EXPORTS WILL INCREASE.

6. IN AUGUST 1975 WHEN THE NZ FARMERS WERE SUFFERING FROM INCREASING OPERATING COSTS, GNZ DEVALUED 15 PER CENT MOSTLY TO BOOST THE NZ DOLLAR INCOME TO THE FARMERS FROM THEIR EXPORTS. AUSTRALIA DID NOT DEVALUE AT THAT TIME. THEREFORE THIS NZ DEVALUATION SERVED TO GIVE THE NZ EXPORTERS OF MANUFACTURED GOODS AN ADVANTAGE OVER AUSTRALIAN MANUFACTURERS. AT THIS TIME THE BALANCE OF TRADE WAS GROWING STRONGLY IN FAVOUR OF AUSTRALIA. SINCE AUGUST 1975 THE NZ DOLLAR, WHOSE VALUE IS SET BY A CONTROLLED FLOAT BASED ON A "BASKET" OF THE CURRENCIES OF ITS MAIN TRADING PARTNERS HAS CHANGED. FROM AUGUST 1975 TO NOVEMBER 27 IT HAD DECLINED A FURTHER 5.4 PER CENT VIS-A-VIS THE AUSTRALIAN DOLLAR AND 8.8 PER CENT AGAINST THE US DOLLAR, 9.5 PER CENT AGAINST THE YEN, 15.1 PER CENT AGAINST THE GERMAN MARK BUT RELATIVE TO THE POUND STERLING IT GAINED 16.6 PER CENT. AS CAN BE SEEN, WITH 15 PER CENT DEVALUATION IN AUGUST 1975 AMW A SUBSEQUENT DECLINE OF 5.4 PER CENT AGAINST THE AUSTRALIAN DOLLAR THE POSITION OF NZ EXPORTERS IMPROVED. SO DID NZ EXPORTS TO AUSTRALIA, ESPECIALLY UNCLASSIFIED

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OF MANUFACTURED GOODS. WITH AN APPROXIMATE RELATIVE DROP IN THE VALUE OF THE AUSTRALIAN DOLLAR OF 10 PER CENT, AS A CONSEQUENCE OF THE LATEST DEVALUATIONS, MOST NZ EXPORTERS SHOULD BE ABLE TO HOLD THEIR POSITION IN THE AUSTRALIAN MARKET.

7. THE MAIN FACTOR WHICH MILITATED AGAINST A LARGER NZ DEVALUATION (WHICH WOULD HAVE HELPED

REDUCE THE PRESENT HIGH LEVEL OF IMPORTS) WAS THE
REPERCUSSIONS IT WOULD HAVE ON INFLATION. PM
MULDOON'S POLICY HAS EMPHASISED STEPS TO BRING
INFLATION DOWN. EVEN THE 7 PER CENT DEVALUATION IS A
SET BACK ON THE FIGHT AGAINST INFLATION. THE
PRESIDENT OF THE FEDERATION OF LABOR, SIR TOM SKINNER,
HAS NOW ANNOUNCED THAT THE FOL MAY WELL BE REQUESTING
ANOTHER WAGE ORDER IN ABOUT SIX MONTHS AS A RESULT OF
THE LIKELY CPI INCREASE CAUSED BY THE DEVALUATION.
HOW EFFECTIVELY THE NATIONAL GOVERNMENT WILL DEAL
WITH THESE INCREASES IN INFLATIONARY PRESSURE ALONG
WITH ITS OTHER ECONOMIC WOES SUCH AS THE CONTINUED
INCREASING IMPORT PAYMENTS, EXPECIALLY FOR PETROLEUM,
WILL HAVE A DIRECT AND REAL EFFECT ON ITS CHANCES OF
SUCCESS AT THE POLLS IN NOVEMBER 1978.
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